Translation

Our Ref : HD (CR) 2/24/171/IV
Tel No : 2761 5008
Fax No : 2762 1110

The Hon. LEE Wing-tat
Secretariat of the Legislative Councillors of the Democratic Party
Rm 401-410, West Wing, Central Government Offices
11, Ice House Street, Central, HK

11 March 1999

Dear Sir,

Buy or Rent Option (BRO)

Thank you for your proposal at the HA meeting on 4 March that the pricing methodology of HOS might not necessarily be adopted for BRO flats and mortgage subsidies could be directly deducted from flat prices to reduce the interest payment. After careful consideration of the proposal, I would like to respond as follows:

First of all, our proposals on the pricing of BRO flats and mortgage subsidies are made with due consideration given to various home ownership schemes currently offered by HA and the affordability of prospective tenants.

As for the pricing of BRO flats which are all new PRH Harmony flats, we consider that pricing them with reference to the HOS pricing structure will make it easier for the public to understand and demonstrate our consistency in determining prices of new flats. For flats under Tenants Purchase Scheme (TPS), they are sold at replacement cost since they are ten-year-old Trident flats. Under the BRO, apart from the provision of mortgage subsidies for the purchasers, a more relaxed affordability standard than that of HOS is also adopted in determining flat prices.

The mortgage subsidies under BRO are provided with reference to the existing Mortgage Subsidy Scheme. This will make it easier for the public to understand. More importantly, mortgage subsidies can encourage participation by the low-income households through the "progressive repayment" method. With the increase of their income, these households will ultimately be able to afford mortgage repayment on their own. This is an advantage that cannot be offered by the deduction of mortgage subsidies from flat prices. We therefore consider that mortgage subsidies effectively contribute to the provision of an affordable option in home ownership for low-income households.

We have studied the proposal put forward by you, with detailed findings of the analysis at **Annex**. Take for example a flat with the market value of $ 1 million, according to your proposal, $34,000 can be saved from the expenditure on interest, accounting for 5% of the total mortgage repayment in the same period. However, given the policy consideration mentioned earlier, the current arrangement is still considered the best choice. It should also be noted that the reduction of flat prices will mean a higher discount to the market price. Obviously the owners will have to pay a higher premium when they resell their flats in the open market.

Thank you once again for your proposal. Please feel free to contact me if you have any further enquiries.

(Marco WU)
Deputy Director of Housing/Management

Annex

Buy or Rent Option: Repayment Analysis

case 1: market price at $ 1 million, sold at $550,000 (discount rate 45%), with mortgage subsidies up to 6 years totalling $162,000 (now valued about $130,000).

case 2: same market price at $ 1 million, sold at $420,000 (discount rate 58%) with mortgage subsidies directly deducted from the flat price.

Analysis

	case 1		case 2
flat price:	$550,000		$420,000
downpayment (5%)	$27,500		$21,000
mortgage loan:	$522,500		$399,000
current value of mortgage subsidies:	$130,000		0
current value of total mortgage repayment for 25 years:	$692,000		$528,000
net expenditure:	$562,000		$528,000
difference:		$34,000	
monthly repayment in the first year (minus mortgage subsidies):	$1,300		$3,300
monthly repayment in the third year (minus mortgage subsidies):	$2,050		$3,300
discount rate:	45%		58%
premium upon resale after 5 years (assuming the market price has risen to $ 2 million):	$900,000		$1,160,000